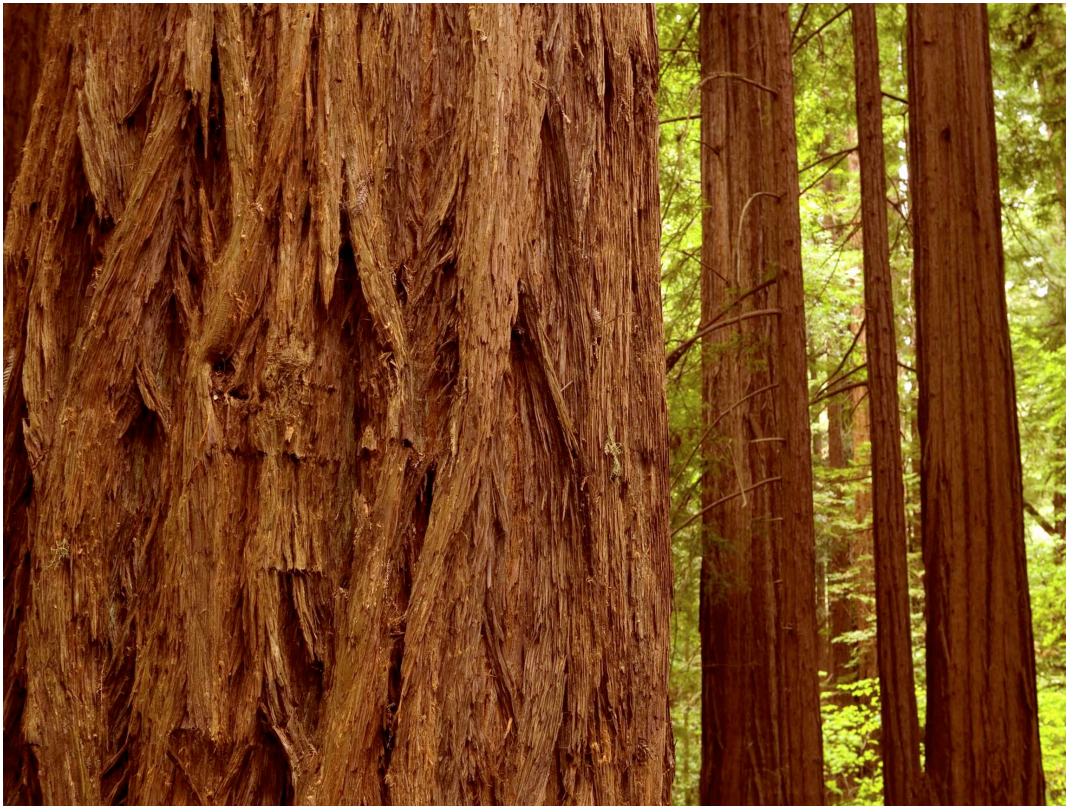


STRENGTHENING ORGANIZATIONAL CAPACITY

Social Finance Survey Report

by Natasha van Bentum and Maggie Leithead



Social finance: the promise of a brighter tomorrow

If you find it increasingly tough to cultivate and manage a gaggle of funders and their divergent needs, an emerging class of financing may become a vital new source of sustainability for your organization. According to the findings of a recent survey¹ on the emerging world of social finance, senior executives from nonprofit organizations around the world are keen to access new forms of capital for their organizations.

Canadians may already be falling behind the curve though, as our counterparts in the United Kingdom and United States enjoy both policy frameworks that support alternative financing, and financial products that help deliver it. This report highlights the findings of a small international survey conducted over the winter of 2007/08 to explore the emerging world of social finance from the perspective of nonprofit organizations.

The global need for nonprofit capital

Social Finance: What exactly is it?

According to a definition by Tim Draimin of the Tides Canada Foundation, social finance is finance with a social or environmental mission. It is a sustainable approach to managing money that delivers social, environmental and economic benefits. It's the "space on the financial continuum between high financial value and no social value returns (e.g. traditional financial investment vehicles) and no financial value but high social returns (e.g. grants)."²

Financial products in this zone (referred to as social finance products) include insured and un-insured deposits, senior and subordinated loans, debt-with-equity features, loan guarantees, fixed income securities, real estate mortgages, stock purchases and private equity. What distinguishes these investments as social finance is that they... exist on the spectrum between the +5% return of a conventional fixed income investment and the -100% return characteristic of grants.³

According to the results of the *Social Finance* survey, the majority of respondents (61%) from outside of Canada had heard of the term "social finance." Within Canada, that awareness level dropped to 53% of respondents. The proportionately lower awareness of the term in Canada may be the result of narrower social finance options for Canadian organizations than there are for organizations in either the US or UK.



Organizations in the charitable sector need to explore new ways of accessing sufficient capital to achieve their goals.

82%

Agree or strongly agree that funding is chronically insecure and often focused on current projects, rather than investment in organizational capacity or infrastructure.



Many charities don't seek alternative forms of capital because they are wary of the associated risks of borrowing, or don't have a business model to support debt financing.

Getting beyond the grant cycle

According to survey author Natasha van Bentum of Victoria, BC, an overwhelming percentage of respondents (96%) agreed that the nonprofit sector needs to explore new ways of accessing capital to meet its goals. Canadian respondents were almost 10% more likely to strongly agree with the need for new ways of accessing capital.

The vast majority of respondents (82%) agreed that funding is insecure and often focused on current projects, rather than on investment in organizational capacity or infrastructure. Again, Canadian respondents to the survey were somewhat more likely to strongly agree about the precarious and project-based nature of funding.

However, the survey also highlighted that many charities and nonprofits do not seek alternative forms of capital because they are wary of the associated risk of borrowing, or because they do not have a sustainable business model to support debt financing. Complicating the problem, the vast majority of respondents (87%) believe that nonprofits are not sufficiently aware of the alternative forms of capital available to them.

A sea change in donor approaches

Where are donors heading?

Many modern donors dislike the term “charity”, preferring to speak instead about their “social investments.” Their language is entrepreneurial, sprinkled with references to metrics, scalability, ROI and leverage. A significant majority (72%) of international respondents to the survey agree that they are increasingly seeing philanthropists using methods borrowed from for-profit investors. Slightly fewer Canadian respondents perceive a similar entrepreneurial movement on the part of their donors, but the majority (64%) agree that it is still a trend.

Likewise, a substantial minority (44%) of international respondents are also seeing the blurring of philanthropy and business expand into foundations, with more foundations turning to program-related investments (PRIs) as well as grants. Interestingly, Canadian respondents noted that they are witnessing foundations adopt entrepreneurial approaches more quickly than their colleagues elsewhere. Nearly half of respondents (47%) agreed that foundations are turning away from strictly grant-based approaches to support and toward a more investment-based approach.

Unfortunately, the scope of the *Social Finance* survey didn’t probe the reasons behind these perceptions of shifting donor strategies and priorities, but it appears that a substantial number of fundraisers are now sensing the sea change from an outlook of pure “charity” to an investment-based mindset.

69%

Agree or strongly agree that philanthropists are increasingly using methods borrowed from for-profit investors. Their language is entrepreneurial, sprinkled with references to metrics, scalability, and ROI.



Public policy will play a vital role in the evolution of social finance. Government will either enable social finance (through tax incentives for example), or it will remain marginal.

77%

Agree or strongly agree that the recent interest in social enterprise, social entrepreneurship and the social economy movement will produce demands for social finance.

What is the role for government in the world of social finance?

Social finance has been on the map in Europe for years and has gained traction in the United States since the mid-1990s. Unfortunately, many of the policy frameworks and products that support social finance abroad have yet to make their way to Canada.

Survey respondents view government as pivotal in growing the options for Canadian social finance. When asked whether public policy will play a vital role, 78% of respondents agreed or strongly agreed that government will either enable social finance (through tax incentives for example), or it will remain marginal.

Likewise, a strong majority of respondents (75%) agreed with the idea that the most effective way of providing significant capital to the nonprofit sector is by facilitating access to private finance as well as to the broader capital markets.

Many questions, hungry for answers

If the *Social Finance* survey showed anything, it's that many nonprofit executives see the need for different types of funding relationships that will allow them sufficient amounts of capital to achieve their goals. New social finance products hold the promise of helping to address some of those issues, but many Canadian nonprofit managers are unaware of the opportunities, don't know how to take advantage of them, or feel limited in accessing them by the policy framework imposed by their charitable status.

Some Canadian organizations are making strides in this emerging field, and survey respondents pointed to several examples of social finance in action, from social purchasing portals and established social enterprises, to microfinance funds and mass-market socially responsible investment products.

Many more organizations are at the early stages of learning about the area and are seeking specific examples of social finance in practice and how it supports various public benefit movements including charities, social enterprise, co-operatives, community economic development, and social economy.

It's our hope that the *Social Finance* survey highlights the need to profile Canadian examples of successful social finance in action, and build a better awareness of the policy frameworks that are in place internationally to cultivate it. In understanding the potential of social finance, nonprofits, funders, donors and entrepreneurs will be better equipped to advocate for changes that will encourage its broad adoption.

Now it's your turn

Do you know of examples of social finance at work in your community? If so, please send details about the program(s) to us at socialfinance@charityvillage.com. We'll collect them for a new suite of social finance resources on CharityVillage.com.

References:

¹ "Social Finance" survey conducted Nov./Dec, 2007, based on a self-selected sample of 235 respondents from Canada, the United States, and the United Kingdom.

² "Social Finance: An underdeveloped but essential aspect of sustainable investing in Canada," Tim Draimin and Ted Jackson, Social Investment Organization (SIO) Conference, Tuesday, May 29th, 2007.

³ "The Social Purpose Capital Marketplace: An opportunity for the Canadian charitable sector," Coro Strandberg, Tides Canada Foundation, January 2007.